

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6391

BILL NUMBER: HB 1328

NOTE PREPARED: Jan 2, 2012

BILL AMENDED:

SUBJECT: Financial Institutions Tax Reduction.

FIRST AUTHOR: Rep. Messmer

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
☐ FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill reduces the tax rate applicable to the Financial Institutions Tax over four years.

Effective Date: July 1, 2012.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the financial institutions tax rate reduction. The DOR's current level of resources should be sufficient to implement the new tax credit.

Explanation of State Revenues: *Summary* - The bill reduces the financial institutions tax (FIT) rate from 8.5% to 8% in CY 2013; to 7.5% in CY 2014; to 7% in CY 2015; and to 6.5% beginning in CY 2016. The estimated annual revenue loss from the rate reduction is presented in the table below. The revenue loss could begin in FY 2012 as some financial institutions reduce estimated tax payments. However, the impact in FY 2012 should be minimal since 85% of the financial institutions paying roughly 96% of the tax liability pay the FIT on a calendar year basis.

Fiscal Year	Revenue Loss
2012	Minimal
2013	\$1.5 M
2014	\$6.7 M
2015	\$11.1 M
2016	\$15.5 M
2017	\$17.7 M

Background Information - Revenue from the FIT is distributed to local units and to the state General Fund. Local units are annually guaranteed revenue from the FIT. The amount guaranteed to a local unit is equal to the difference between: (1) the amount that was received by the taxing unit in 1989 under financial institutions taxes that were repealed and replaced by the FIT and (2) the amount received in the current year by the taxing unit from property taxes attributable to personal property of banks. FIT distributions to local units occur throughout the fiscal year until the guarantee is met. Any remaining FIT revenue is distributed to the state General Fund. The annual guarantee is roughly \$45 M. The Revenue Technical Committee forecast (published December 14, 2011, projects that FIT revenue to the state General Fund will total \$5 M in FY 2012 and \$5 M in FY 2013 (a combined total of \$50 M each year). The revenue loss estimates for FY 2014 through FY 2017 assume that total FIT revenue will reach a more historical level of approximately \$75 M annually (\$45 M to local units and \$30 M to the state General Fund).

It is estimated that the FIT rate reduction will eliminate a significant portion of the revenue to the state General Fund beginning in FY 2013. In the event that revenues don't grow sufficiently, however, it is possible that the rate reduction could result in transfers being made from the state General Fund to local units beginning in FY 2014 to pay the guaranteed amounts to local units under the FIT.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: OFMA Income Tax databases, 2008.

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